

Message Text

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C O N F I D E N T I A L SECTION 1 OF 2 NEW DELHI 18564

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TAGS: EGEN, IN
SUBJ: THE EMERGENCY AND THE ECONOMY

REF: NEW DELHI 18141; A-311; A-294

SUMMARY: MUCH OF WHAT IS NOW CALLED THE "ACCOMPLISH-
MENTS OF THE EMERGENCY" BY INDIA'S POLITICAL LEADERSHIP
WAS BROUGHT ABOUT BY GOOD LUCK AND THE MARKEDLY EFFEC-
TIVE AND MORE VIGOROUS IMPLEMENTATIONS OF POLICIES THAT
HAD ALREADY BEEN INITIATED. HOWEVER, IT WOULD BE A
MISTAKE TO DISCOUNT THE IMPORTANT EFFECTS THE EMERGENCY
HAS HAD ON THE ECONOMY. THE BANNING OF STRIKES AND
THE ATTACK ON THE "BLACK" ECONOMY HAVE HAD MAJOR CON-
SEQUENCES, AND THE DISCIPLINE IMPOSED ON BOTH THE
BUREAUCRATS AND THE PUBLIC SEKTOR WAS ESSENTIAL IN MAKING
POSSIBLE THE MORE EFFECTIVE IMPLEMENTATION OF ECONOMIC
POLICIES. THE NEW FAMILY PLANNING PROGRAM, PARTICULARLY
THE STRIKING INCREASE IN STERILIZATIONS IN 1976-- OF
LONGER-TERM ECONOMIC CONSEQUENCE -- CAN ALSO BE ATTRI-
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BUTED IN LARGE PART TO THE EMERGENCY. THE MAINTENANCE
OF THESE ECONOMIC BENEFITS WILL REQUIRE THE CONTINUED
EXERCISE OF POLICE AND/OR OTHER DISCIPLINARY CONTROLS.
END SUMMARY.

1. THE EMBASSY RECENTLY SUBMITTED A-294, THE "EKONOMIC TRENDS", WHICH DESCRIBES THE PERFORMANCE OF THE INDIAN ECONOMY IN 1976. IN ADDITION, NEW DELHI 18141 WAS SUBMITTED AS ANALYSIS OF THE PESENT ECONOMIC POLICIES CARRIED OUT BY THE GOI. YET ANOTHER PERSPECTIVE REMAINS: THE EXTENT TO WHICH THE EMERGENCY ITSELF IS A FACTOR IN THE GOOD PERFORMANCE OF THE INDIAN ECONOMY THESE PAST 18 MONTHS.

2. PRE-EMERGENCY DAYS: IN RECALLING ECONOMIC CONDITIONS IN PRE-EMERGENCY DAYS, THE POLITICAL LEADERSHIP JUSTIFIES ITS ACTIONS BY REFERRING TO THAT PERIOD AS A TIME WHEN LABOR STRIKES WERE WIDESPREAD, MUCH OF INDIA'S FOREIGN EXCHANGE WAS BEING USED TO IMPORT GRAIN, AND INFLATION WAS RAMPANT. IN FACT, IN PRE-EMERGENCY DAYS POLICIES THAT HAD LONG BEEN RECOMMENDED BY ECONOMIC OBSERVERS AND ADVISORS TO INDIA WERE BEING PROMULGATED. IN AGRICULTURE, RESEARCH WAS BEING PRFORMED TO DEVELOP HIGHER YIELDING VARIETIES OF SEED; FERTILIZER PLANTS WERE BEING CONSTRUCTED TO SUPPLANT IMPORTS; AND INTEGRATED RURAL DEVELOPMENT PROJECTS, STRENGTHENED EXTENSION SERVICES AND PLANS FOR INCREASED BANKING FACILITIES IN THE RURAL AREAS WERE ALL INITIATED AND WERE BEGINNING TO BE CARRIEDOUT BY THE GOI.

3. IN THE INDUSTRIAL SECTOR, LICENSING PROCEDURES WERE LIBERATIZED, AND EXPORTS, INCLUDING EXPORT SUBSIDIES, WERE GIVEN GREATER EMPHASIS. WHILE LABOR STRIKES WERE A SERIOUS PROBLEM, SOME, INCLUDING THE NATIONWIDE RAILWAY STRIKE, WERE ENDED FAIRLY QUICKLY AND HARSHLY. OIL AND OTHER MINERAL EXPLORATION WAS SPEEDED
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UP. IN ADDITION, A CRACKDOWN HAD ALREADY BEGUN ON BLACK MONEY OPERATIONS AND TAX EVASION. IN TRYING TO COPE WITH INFLATION, CREDIT WAS TIGHTENED, SOME ANTI-HOARDING MOVES WERE MADE, AND ADDITIONAL PRICE CONTROL MEASURES STARTED. MANY OF THESE MEASURES WERE POSSIBLE ONLY BECAUSE MRS GANDHI HAD ALREADY BEGUN TO EXERCISE STRONGER CENTRAL AUTHORITY.

4. EXTERNAL FACTORS WERE ALREADY IN MOTION WHICH WOULD HAVE A VITAL EFFEKT ON THE PERFORMANCE OF INDIA'S ECONOMY. TWO VERY BAD YEARS IN TERMS OF WEATHER MADE PROSPECTS FOR A FAVORABLE WEATHER YEAR GOOD -- IN FACT, THE BEST WEATHER MATERIALIZED IN THE SUMMER OF 1975. THE PRICE OF SUGAR ON WORLD MARKETS HAD GONE UP CONSIDERABLY, ADDING TO INDIA'S EXPORT EARNINGS AND EXTERNAL ASSISTANCE WAS HIGHER THAN USUSAL.

5. IN MID-1975 HOWEVER, WHILE NEW POLICIES WERE BEING STARTED AND WHEN GOOD WEATHER WAS JUST AROUND THE CORNER, THE ECONOMY DID NOT YET REFLECT A VERY BRIGHT PICTURE AND COULD NOT IN ANY WAY DEFLECT ATTENTION AWAY FROM INDIA'S POLITICAL PROBLEMS.

6. THE EMERGENCY: UNDER THESE CONDITIONS, THE EMERGENCY WAS DECLARED IN JUNE 1975 AND THE 20 POINT EKONOMIC PROGRAM WAS PROMULGATED SHORTLY THEREAFTER. THE ORIGINAL STIMULUS FOR THE EMERGENCY WAS NOT THE NEED FOR CHANGES IN THE ECONOMY BUT THE GOVERNMENT QUICKLY ADDED THE GOAL OF IMPROVED ECONOMIC AND SOCIO-EKONOMIC PERFORMANCE AS AN EX POST FACTO JUSTIFICATION. NEW ACTIONS TAKEN AFTER THE EMERGENCY WAS DECLARED INCLUDED A BWN ON STRIKES AND OTHER LABOR AGITATION; A BROAD ATTACK AGAINST SMUGGLING, HOARDING, CONCEALED ASSETS, AND OTHER ECONOMIC OFFENSES; AND SETTLEMENT OF SOME WATER DISPUTES BETWEEN THE STATES (WHICH HAD HELD UP SOME MAJOR IRRIGATION PROJEKTS FOR DECADES.) ONE OF
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THE RESULTS OF THE ANTI-SMUGGLING DRIVE HAS BEEN IMPROVED TAX COLLECTIONS. ANOTHER HAS BEEN THE UNEXPEKTED FLOW OF REMITTANCES FROM INDIANS OVERSEAS THROUGHT LEGAL CHANNELS, (AT THE SAME TIME THAT THE EMPLOYMENT OF INDIANS IN THE MIDDLE EAST AND AFRICA WAS ALSO RISING SHARPLY), WHICH HAS BEEN A MAJOR CAUSE FOR THE SHARP RISE IN INDIA'S FOREIGN EXCHANGE RESERVES.

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7. PERHAPS MOST IMPORTANT IN TERMS OF THE ECONOMY WAS THAT THE EMERGENCY INSTILLED A SENSE OF DISCIPLINE IN THE BUREAUCRACY WHICH SO PERVASIVELY MANAGES THE ECONOMY, AND INCREASED PUBLIC SECTOR EFFICIENCY. PUBLIC SECTOR ENTERPRISES ARE PERFORMING BETTER BECAUSE OF IMPROVED MANAGEMENT AND LABOR PRODUCTIVITY. OTHER MAJOR ACTIONS CARRIED OUT AFTER THE DECLARATION OF THE EMERGENCY-- INCLUDING THE MEASURES AGAINST INFLATION, STRONG EXPORT GROWTH, AND THE MAINTENANCE OF A REALISTIC RUPEE/ DOLLAR EXCHANGE RATE--REPRESENT A VIGOROUS AND MORE EFFICIENT IMPLEMENTATION AND EXPANSION OF PREVIOUS POLICIES.

8. THE EMERGENCY HAS ALSO BEEN RESPONSIBLE IN LARGE PART FOR THE GOVERNMENT'S WILLINGNESS TO UNDERTAKE A GREATLY EXPANDED FAMILY PLANNING EFFORT THIS PAST YEAR. (WHILE FAMILY PLANNING IS PRIMARILY A SOCIAL PROGRAM, ANY GOVERNMENT SUCCESS IN BRINGING DOWN THE BIRTH RATE HAS A DIRECT IMPACT ON INCREASES IN PER CAPITA INCOME.) THE STRIKING INCREASE IN STERILIZATIONS AND THE METHODS USED TO GET RESULTS (COERCIVE MEASURES AND LIMITED OFFICIAL USE

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OTHER PENALTIES IN ADDITION TO INCENTIVE PAYMENTS) HAVE CAUSED SCATTERED RESISTANCE

AND WIDESPREAD DISSATISFACTION, BUT THE POLITICAL REACTION WOULD HAVE BEEN MUCH STRONGER (AND PERHAPS UNBEARABLE) IN THE ABSENCE OF AN EMERGENCY.

9. CONCLUSIONS: THE PERFORMANCE OF INDIA'S ECONOMY IN 1975/76 WAS INDENIABLY GOOD, BUT OUR LATEST ECONOMIC TRENDS REPORT SUGGESTED THAT MUCH OF THIS WAS DUE TO EXTERNAL FACTORS, AND THAT IT APPEARED THAT PROGRESS IN IMPROVING THE STRUCTURE OF INDIA'S ECONOMY HAS BEEN ONLY MODEST. NEW DELHI 18141, WHICH ASSESSED THE PRESENT ECONOMIC POLICIES OF THE GOI, CONCLUDED THAT THEY CONTINUED THE STRATEGY OF SLOW GRADUAL GROWTH WITH NO DRAMATIC BREAKTHROUGHTS, BUT THAT THIS POLICY HAD PITFALLS, AMONG THEM THE GROWING PROBLEM OF UNEMPLOYMENT. IN OUR VIEW, WHILE WEATHER, EXTERNAL FACTORS, AND THE CONTINUATION OF PRE-EMERGENCY POLICIES HAVE HAD A FAVORABLE IMPACT ON THE INDIAN ECONOMY IN THE PAST 18 MONTHS, THE EMERGENCY ITSELF HAS MADE AN IMPORTANT CONTRIBUTION, PRINCIPALLY IN THE PERFORMANCE OF PUBLIC ENTERPRISES AND IN THE

EXTERNAL ECONOMIC SECTOR. HOWEVER, THESE BENEFITS DO NOT
REPRESENT STRUCTURAL SHIFTS IN THE ECONOMY ITSELF, AND THEIR
CONTINUATION WILL DEPEND ON THE CONTINUED EXERCISE OF ACTIVE
OR IMPLIED POLICE AND OR OTHER DISCIPLINARY CONTROLS.

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